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SIPDIS
SENSITIVE

E.O. 12958: N/A
TAGS: EFIN ECON UY
SUBJECT: URUGUAY ENDORSES OECD STANDARDS ON TRANSPARENCY AND EXCHANGE OF INFORMATION

¶1. (U) This telegram is sensitive but unclassified, and not for Internet distribution.

Summary

¶2. (U) Uruguay formally endorsed the Organization for Economic Cooperation and Development's (OECD) standards on transparency and exchange of information in immediate response to its placement on the organization's April 2 list of non-cooperative tax havens, and OECD Secretary General Angel Gurria welcomed the move. The subject of the OECD report touched on two issues that have been in the local news in recent weeks: a debate on banking secrecy between the two principal Frente Amplio presidential candidates, and Uruguay4s reputation as a tax haven, a characterization that President Vazquez rejected at the Summit of Progressive Leaders in Chile March 27. End Summary.

Uruguay's short stay in the OECD's doghouse

¶3. (U) Following the G-20 meeting, on April 2 the OECD released a report on the progress of 84 countries towards "implementing an internationally agreed standard on exchange of information for tax purposes." The report placed countries in four categories, and Uruguay was one of only four countries -- along with Costa Rica, Malaysia, and the Philippines -- that fell in the lowest category: jurisdictions that haven4t committed to implement the internationally agreed tax standard. In response, Minister of Economy Alvaro Garcia wrote immediately to OECD Secretary General Gurria to inform him that Uruguay endorsed OECD standards on transparency and exchange of information, as set out in the 2005 version of Article 26 of the OECD Model Tax Convention. Foreign Minister Gonzalo Fernandez ventured a public defense, saying that Uruguay "never was, is or will be a tax haven" and underlined that this is the only known case of a country "listed and de-listed in less than 48 hours." OECD Secretary General Gurria welcomed Garcia's letter, saying "I am pleased that Uruguay joins a growing number of nations willing to cooperate in fighting tax evasion and other tax abuses."

¶4. (U) The GOU promised the OECD that it would share tax information with countries with which it has signed investment protection and promotion agreements, and that it will seek to sign such agreements with all OECD members. Agreements already signed with Portugal, Chile, Spain, India, China, Germany and Hungary (among others) include OECD norms.

¶5. (U) The Uruguayan press was quick to accuse Argentina of pressuring the OECD to low-rank Uruguay. The press quoted former Ministers of Economy Ignacio de Posadas (National party) and Danilo Astori (Frente Amplio and a current Presidential candidate) as saying that Argentina was attempting to provoke a crisis of confidence in the Uruguayan financial system. Note: Argentina is not an OECD member and it does not have an investment agreement with Uruguay, raising doubts as to whether Uruguay will share tax

information with its neighbor. End Note.

President rejects tax haven label

¶6. (U) The OECD listing touched on two issues that have been in the local press in recent weeks: a debate over Uruguay's bank secrecy provisions and the broader question of whether Uruguay is a tax haven. During the Summit of Progressive Leaders held in Chile in late March, President Vazquez publicly rejected what he characterized as "rumors" suggesting Uruguay is a tax haven. Vazquez said Uruguay has been a serious and respectable country throughout history, and stressed that his administration has declared an open war against drug trafficking and related activity. Specifically, Vazquez added that "Uruguay is fighting against organized crime and money laundering and terrorism financing as never before. We have sent bills and passed laws to work in that direction; we have created specialized courts and will train prosecutors to work on these issues. We have prohibited the creation of new off-shore investment companies, and starting January 1, 2010 will eliminate them."

¶7. (U) Similarly, the director of Uruguay's tax agency declared April 2 that Uruguay cannot be catalogued as a tax haven since it does not fulfill three of the OECD4s four relevant criteria. Nelson Hernandez stated that Uruguay taxes non-residents, has a transparent fiscal system, and does not grant tax benefits to firms that do not operate locally. With respect to the fourth criterion -- the lack of exchange of tax information with other administrations -- Hernandez stated that the OECD requires information exchange clauses in bilateral agreements and said that Uruguay4s mistake has been to have failed to move forward on double taxation agreements.

The debate over bank secrecy

¶8. (U) Bank secrecy has been a subject of recent debate between the two front runners for the Frente Amplio4s presidential candidacy, senators (and former ministers) Danilo Astori and Jose Mujica. The debate was triggered by Mujica4s call to eliminate banking secrecy, a proposal that Astori rejected. The debate turned so hot that on April 2 Central Bank President Mario Bergara called a press conference to brief reporters on Uruguay4s regime and address questions. During the conference, Bergara noted that all serious countries have some extent of banking secrecy, highlighted that Uruguay had gradually lightened its bank secrecy since 1982, and underscored that the current regime stems from a comprehensive political consensus reached during the discussion of the 2007 tax reform. He stressed the Uruguayan judiciary's ability to lift secrecy on deposits in cases of documented suspicion of money laundering/terrorism finance, fraud, or tax evasion. Bergara also underscored that bank secrecy can also be lifted by the Central Bank4s supervisory and financial units, and he noted that the bank has information exchange agreements in place with Brazil, the United States and Spain.

Comment

¶9. (SBU) We welcome Uruguay's quick response to the OECD, which demonstrates the country's desire and willingness to be a serious and responsible member of the international financial community. The GOU's timely promise to adhere to OECD guidelines was also undoubtedly due in part to a belief that inclusion on the OECD list would put large foreign investments at risk. For example, the local press reported that Uruguayan officials reached out to Portuguese company Portucel, which plans to construct a USD 2-4 billion paper pulp mill, to explain why they felt Uruguay's inclusion on the list was a mistake. End Comment.

SCHANDLBAUER